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SUBJECT: TFH01: MAQUILA MANAGER ON MEDIOCRE MARKET

REF: TEGUCIGALPA 776

¶1. (SBU) SUMMARY: Don Allen, the manager of American sewing contracting company Pinehurst Manufacturing, told EMBOFF that plant orders had decreased by approximately 40 percent in the first quarter of 2009, a result of the global economic downturn. Orders began rebounding in May, but the recovery slowed after the June 28 coup. Recent figures indicate that by year-end business will be down only 25 percent versus the previously estimated 40 percent. Allen said that Pinehurst has also experienced some effects of the political crisis, including slowed growth rates in orders following June 28, the temporary imposition of a daytime curfew following Zelaya's unexpected return, and one U.S. customer canceling a routine plant visit. The impacts on Pinehurst Manufacturing of the crises are representative of what U.S. apparel manufacturers in Honduras are experiencing. Although the political crisis is not the primary culprit of decreased revenues for the maquilas, anecdotal evidence indicates that is slowing local businesses' recovery from the global economic crisis. END SUMMARY.

¶2. (SBU) EconOff spoke with AmCit Don Allen, manager of the Pinehurst Manufacturing Plant in October regarding the impact of the political and economic crises on plant operations and business. Pinehurst Manufacturing is a sewing contracting company based in North Carolina and sells to nine U.S.-based customers. The company currently employs 786 workers in Honduras.

¶3. (SBU) Pinehurst plant orders decreased by approximately 40 percent in the first quarter of 2009, a result of the global economic downturn. Consequently, the company reduced its workforce from 1200 to the current 786. Orders began rebounding in May, but the recovery slowed after the June 28 coup. Current third-quarter figures show plant production at 75 percent of 2008 levels. If this trend continues, business for the year will be down only 25 percent versus the previously estimated 40 percent. Although the total volume of orders is recovering, orders are smaller with shorter delivery timelines since Pinehurst's customers want to decrease their risk exposure by maintaining smaller inventories. Despite the recent increase in business, Pinehurst did not rehire previously laid-off workers; rather, it implemented measures to improve employee efficiency.

¶4. (SBU) Allen attributed reduced plant productivity primarily to the global economic crisis but said that the Pinehurst plant has seen some impacts resulting from the

political crisis. Growth rates in orders slowed following June 28, and the temporary imposition of a daytime curfew following Zelaya's unexpected return to Honduras on September 25 affected production. (His plant was not affected by any nighttime curfews as it only has day shifts). Additionally, one U.S. customer canceled a routine plant visit in light of the political events (and possibly the Department's Travel Alert). Pinehurst conducted "preventative maintenance" with its customers and assured them that the plant would fill all orders on time barring further daytime curfews. Allen believes this assurance mitigated further potential losses resulting from the political crisis.

15. (SBU) COMMENT: The impacts on Pinehurst Manufacturing of the global economic downturn and the Honduran political crises are representative of what U.S. apparel manufacturers in Honduras are experiencing. Although the political crisis is not the primary cause of the maquilas' decreased revenue, anecdotal evidence indicates that it has slowed local businesses' recovery from the global economic crisis.
LLORENS